

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-14 ISO-00 AID-05 CIAE-00 COME-00

FRB-01 INR-10 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-07 CEA-01 L-03 H-02 DODE-00 PA-02 AGRE-00

DOE-15 SOE-02 /136 W

-----037085 302116Z /46

R 300700Z MAR 78

FM AMEMBASSY BERN

TO SECSTATE WASHDC 6001

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION GENEVA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL ZURICH POUCH

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USMTN ALSO FOR MISSION

USOECD ALSO FOR EMBASSY

PASS TREAS AND FRB

E. O. 11652: N/A

TAGS: EFIN, SZ

SUBJECT: SWISS FINANCIAL REVIEW: WEEK OF MAR 19-25

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC
ROSE AND FELL IN NERVOUS MARKET; GOLD PRICE
DECLINED. BANK CONSORTIUM PLANS TO DELAY NEW
LOAN EMISSIONS TO ASSESS IMPACT OF NON-RESIDENT
INVESTMENT RESTRICTIONS ON CAPITAL MARKET YIELDS.
FEDERAL COUNCIL FORMALLY PRESENTED NEW 1979-1981
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FINANCIAL PACKAGE; ADOPTED NEW CREDIT DECREE AND
OFFICIALLY ACKNOWLEDGED BANKING LAW INSUFFICIENTLY
PROTECTS DEPOSITORS IN BANK FAILURES. FIRESTONE TIRE
PLANT WILL CLOSE IN MID-1978. END SUMMARY.

2. FOREX AND GOLD: DEALERS ATTRIBUTED RISE IN
DOLLAR RATE AGAINST SF TO SF 1.94 IN EARLY WEEK

TO EFFECTIVENESS OF SWISS CAPITAL IMPORT RESTRICTIONS,
 PARTICULARLY APPROACH OF APR 1 DATE FOR INCREASED
 APPLICATION OF NEGATIVE INTEREST RULE ON NON-
 RESIDENT SF DEPOSITS. DOLLAR RATE SLIPPED AT MID-
 WEEK, HOWEVER, FOLLOWING REPORT US 1977 CURRENT
 ACCOUNT DEFICIT. GOLD PRICE FELL TO \$177 PER OUNCE,
 REFLECTING STRONGER DOLLAR AGAINST SF, BUT PARTIALLY
 RECOVERED THURS. RATES FOLLOW:

	3/20 (OPEN)	3/23 (CLOSE)
SPOT DOLLAR	1.9050	1.9010

FORWARD DISCOUNTS
 (PCT PER ANNUM)

1 MONTH	7.42	7.07
2 MONTHS	6.86	6.88
3 MONTHS	6.82	6.80
6 MONTHS	6.78	6.74
12 MONTHS	6.21	6.29

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SF/DM	93.26	92.95
GOLD	181.75	179.25

3. CAPITAL AND MONEY MARKETS:

A) STOCK PRICES ROSE THROUGH TUES THEN EASED
 SLIGHTLY. SKA SHARE INDEX CLOSED HIGHER AT 244. BROKERS
 SAID MARKET LACKED REAL POSITIVE IMPULSE, FOLLOWED
 WALL ST TREND AND WAS INFLUENCED BY FOREX MARKET
 DEVELOPMENTS. SAID PROSPECTS OF APPRECIATED SF
 IMPACT ON SWISS EXPORT INDUSTRIES HAS CAUSED INVESTOR
 HESITANCY DESPITE AMPLE MARKET LIQUIDITY. SNB
 REPORTED MARKET LIQUIDITY ROSE SOME SF 1.1 BILLION
 IN FIRST HALF MAR. CALL MONEY RATE BEFORE END FIRST
 QUARTER WAS ONE PCT. AVERAGE YIELD CONFEDERATION
 BONDS WAS 3.5.

B) CONSORTIUM OF SWISS BANKS MANAGING LOAN
 EMISSIONS DECIDED TO DELAY NEW LOANS UNTIL AFTER
 EASTER HOLIDAY PERIOD TO PERMIT MARKET ASSESS IMPACT
 OF FEB 27 RESTRICTION REQUIRING 65 PCT OF NON-RESIDENT

LOANS TO BE TAKEN BY SWISS INVESTORS. RECENT LONG-TERM LOANS AT 3.75 PCT INTEREST ISSUED AT 100 PCT PAR HAVE COME ON SECONDARY MARKET AT 5.25 PCT BELOW PAR. SOME INVESTOR HESITANCY WAS REPORTED FOR NEW LOANS BY FIRST CLASS BORROWERS AT 3.75 PCT IN ANTICIPATION OF HIGHER YIELDS. BANKS REPORTED BORROWER DEMAND IS SUFFICIENT TO FILL SECOND QUARTER EMISSIONS CALENDAR.

4. FEDERAL FINANCES:

A) FED COUNCILOR CHEVALLAZ FORMALLY PRESENTED 1979-1981 FINANCIAL PROGRAM, INCLUDING PROPOSED 8 PCT VALUE ADDED TAX (VAT) EFFECTIVE JAN 1980
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(BERN 741). FINANCIAL PLAN WOULD LIMIT ANNUAL GOVT EXPENDITURE GROWTH TO AVERAGE 4 PCT (BELOW PROJECTED 4.5 PCT AVERAGE NOMINAL GNP GROWTH) AND BALANCE BUDGET BY 1981. GOVT REJECTED SOCIALIST REQUEST TO EXTEND VAT TO BANK LOANS; SAID THAT WOULD PUSH UP INTEREST RATES AND RENTS. GOVT WILL STUDY POSSIBLE TAX ON FOREX TRANSACTIONS AND EXTENDING WITHHOLDING TAX TO FIDUCIARY TRANSACTIONS. CHEVALLAZ SAID WINE PRODUCERS WANTED LOWER VAT OF 2.5 PCT ON WINE AS AGRICULTURAL PRODUCT BUT STRESSED WINE IS TAXED AT 12-24 PCT ELSEWHERE IN EUROPE. CANTONS REPORTEDLY CONTEST PROVISION THAT WOULD ADD SF 500 MILLION TO CANTONAL BURDEN. PARLIAMENTARY DEBATE ON FINANCIAL PLAN BEGINS IN SPECIAL APRIL SESSION.

B) PRESS COMMENT STRESSED THAT FINANCIAL PACKAGE IS SIMILAR TO ONE VOTERS REJECTED IN JUNE 1977, THOUGH VAT REDUCED FROM 10 PCT. SAID GOVT FOLLOWING POLICY OF SEEKING BUDGETARY BALANCE WITHOUT REAL AUSTERITY. SEVERAL EDITORIALS NOTED DIVISION BETWEEN THOSE CALLING FOR BALANCED BUDGET AND THOSE URGING ECONOMIC STIMULATION. AGEFI SAID BALANCED BUDGET IN PRESENT SITUATION IS DESIRABLE BUT WARNED THAT HASTE IN SEEKING ADOPTION MIGHT PRODUCE ANOTHER DEFEAT; BELIEVED CONTINUED DEFICIT MIGHT BE PREFERABLE.

5. BANKING:

A) FED COUNCIL ISSUED NEW DECREE ON CREDIT THAT MAINTAINS SNB AUTHORITY TO SET MINIMUM RESERVE LEVELS (PARTICULARLY FOR FOREIGN LIABILITIES AND TO PARTIALLY ABSORB LIQUIDITY) AND TO REGULATE LOAN EMISSIONS.

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PENDING ENACTMENT OF REVISED NATL BANK LAW, NEW DECREE IS NECESSARY TO REPLACE PRESENT DECREE WHICH EXPIRES END 1978.

B) FED COUNCIL IN RESPONSE TO PARLIAMENTARY QUESTION ACKNOWLEDGED THAT WEISSKREDIT BANK CLOSURE IN MAR 1977 REVEALED SWISS BANK LAW PROVIDES INSUFFICIENT DEPOSITOR PROTECTION. PRIORITY IS GIVEN TO SAVINGS DEPOSITS, BUT WEISSKREDIT NEVER ISSUED SAVINGS BOOKS. SEVERAL WORKING GROUPS ARE STUDYING MEANS TO IMPROVE DEPOSITOR PROTECTION IN BANK FAILURE. WEISSKREDIT LIQUIDATOR HAS PROPOSED GIVING PRIORITY TO HOLDERS OF SMALLEST CLAIMS. BANK REPORTEDLY LOST SF 140 MILLION.

D) CREDIT SUISSE OFFERED TO TAKE OVER NEUMUENSTER BANK, ZURICH, WITH 3 TO 1 STOCK SWAP. SOME 300 NB SHAREHOLDERS OPPOSE CS OFFER; CLAIM THEY WOULD LOSE SF 200 PER SHARE. NB ENCOUNTERED LIQUIDITY PROBLEM WHEN FED BANK COMMISSION REFUSED PERMIT REDUCTION OF LEGAL RESERVES TO COVER OUTSTANDING LIABILITIES. CS ALREADY HOLDS NEARLY 38 PCT OF NB STOCK.

D) LUCERN CANTON BANK REPORTED IT DISCOVERED LOSSES AMOUNTING TO OVER SF 1 MILLION WHEN IT EXAMINED RECORDS OF RECENTLY DECEASED BANK MANAGER. SAID MANAGER HAD CONCEALED FACT HE EXTENDED UNCOVERED CREDIT WITHOUT BANK AUTHORIZATION.

6. FIRESTONE CLOSURE:

A) SOME 600 OF 850 FIRESTONE EMPLOYEES WENT ON STRIKE MAR 22 TO PROTEST ANNOUNCED CLOSURE OF FIRESTONE TIRE PLANT AT PRATTELN NEAR BASEL TO BE EFFECTIVE END JULY 1978. FIRESTONE HAS PRODUCED AT PRATTELN FOR 50 YEARS; ANNUAL SALES WERE OVER UNCLASSIFIED

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SF 100 MILLION BUT LOSSES IN LAST THREE YEARS AVERAGED SEVERAL MILLION FRANCS DUE TO COMPETITION FROM LOW-PRICED FOREIGN-PRODUCED TIRES. PRODUCTION OF 50,000 TIRES (30 PCT FOR EXPORT) REPRESENTS ONLY ONE PCT OF WORLDWIDE FIRESTONE PRODUCTION. HOWEVER, FIRESTONE IS SECOND LARGEST EMPLOYER IN BASEL HALFCANTON AND LAYOFF WOULD BE LARGEST SINCE RECESSION

BEGAN IN LATE 1974. ECONOMIC IMPACT WOULD BE FELT
IN ENTIRE BASEL AREA.

B) FIRESTONE LABOR FORCE AGREED SEVERAL YEARS
AGO TO SUPPORT MANAGEMENT PLANS TO SAVE JOBS BY
ENCOURAGING EARLY RETIREMENTS, PART TIME WORK,
REDUCED HOURS AND SALARY CUTS. LABOR NOW WANTS
CONTINUED PRODUCTION AT PRESENT LEVEL AND GUARANTEED
JOBS. FED COUNCILOR HONEGGER PLANS TO MEET WITH
BASEL OFFICIALS ON FIRESTONE. HOWEVER, GOVT HAS
LIMITED ABILITY TO HELP MULTINATIONAL FIRSM MAINTAIN
PRODUCTION IN SWITZERLAND WHEN OPERATIONS ARE NET
LOSS.

D) JOURNAL DE GENEVE EDITORIAL COMMENT STRESSED
THAT SWISS PRODUCTION FOR EXPORT HAS BECOME LESS
PROFITABLE BECAUSE OF SF APPRECIATION WHICH ALSO
MAKES IT CHEAPER TO IMPORT THAN PRODUCE LOCALLY.
SAID EVEN IF SWISS TECHNOLOGY SHOULD RETAIN LEADER-
SHIP, PRODUCTION MIGHT STILL BE TRANSFERRED ABROAD
WHERE COSTS ARE LOWER. JOURNAL NOTED SERVICES
SECTOR NO LONGER IS ABLE ABSORB LABOR FREED FROM
DECLINING INDUSTRIES.
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